

PORT OF MONROE
Monroe, Michigan

FINANCIAL REPORT

For the Year Ending June 30, 2008

PORT OF MONROE

TABLE OF CONTENTS

Independent Auditor's Report

Management's Discussion and Analysis 1-7

Financial Statements:

Balance Sheet 8

Statement of Revenues, Expenses, and Changes in Net Assets 9

Statement of Cash Flows 10-11

Notes to Financial Statements 12-20

Supplemental Information

Budgetary Comparison Schedule 21



COOLEY HEHL
WOHLGAMUTH & CARLTON
P.L.L.C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA
Nicklaus W. Calkins, CPA

One South Monroe Street • Monroe, Michigan 48161-2230
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwcepa.com

Members:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
Division for CPA Firms American Institute of
Certified Public Accountants

Independent Auditor's Report

Monroe Port Commission
Port of Monroe
2929 East Front Street
Monroe, Michigan 48161

We were engaged to audit the accompanying financial statements of the Port of Monroe, Monroe, Michigan, a component unit of the City of Monroe, Michigan as of and for the year then ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Port of Monroe management. Our responsibility is to report on these financial statements based on our audit.

The financial statements present only the Port of Monroe and do not purport to, and do not, present fairly the financial position of City of Monroe, Michigan, as of June 30, 2008, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the financial statements, the Port of Monroe owns property which is undergoing environmental remediation. The Port of Monroe is one of several potentially responsible parties for these costs, the total amount of which has not been determined. As of June 30, 2008, the total estimated liability has not been determined in accordance with generally accepted accounting principles; but rather, a provision was made for a minimum estimated amount.

Because of the significance of the uncertainty described in the preceding paragraph, we are unable to express, and we do not express, an opinion on the financial statements referred to in the first paragraph for the year ended June 30, 2008.

Management's Discussion and Analysis is not a required part of the financial statements, but is required supplementary information. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

The budgetary comparison schedule is presented for additional analysis and is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it; however, we reference the environmental uncertainty described previously.

Cooley Hehl Wohlgamuth & Carlton, PLLC

October 16, 2008

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Monroe Port Commission, we offer the readers of the Monroe Port Commission's financial statements this narrative overview and analysis of the financial activities of the Monroe Port Commission for the fiscal year ended June 30, 2008. Please read it in conjunction with the transmittal letter, also called the Independent Auditor's Report, found in the front of this report, and the Port's financial statements, which follow this section.

Financial Highlights

The Port of Monroe (the "Port") is a separate legal entity created by a vote of the people of the City of Monroe (the "City") in 1932 in accordance with the Port District Act. For accounting purposes, it is considered a component unit of the City.

As shown on the Statement of Net Assets that follows, the Port's assets exceed its liabilities by \$4,201,539. The net assets have decreased by \$117,353 for fiscal year 2007-2008 when comparing the beginning of the fiscal year to the end of the fiscal year. The change resulted primarily from increased expenses for engineering, legal and financial services associated with the Port's successfully litigating in bankruptcy proceedings its rights under an executory contract with Sturgis Iron & Metal, a Port tenant, valued at more than \$1 million for rail construction to the Port's waterfront property. Net assets may, over time, enable governmental agencies to determine their overall fiscal position.

The Port's position in cash and cash equivalents decreased by \$16,197 during fiscal year ended June 30, 2008.

The Port millage rate and corresponding property tax revenue was approximately:

<u>Fiscal Year</u>	<u>Millage Rate</u>	<u>Property Tax Revenue</u>
2008	.425 Mill	\$401,000
2007	.425	399,000
2006	.50	465,000

The general purposes for the levy are to provide for a director of economic development, to purchase abandoned or underutilized parcels of land and to demolish blighted or functionally obsolete buildings for reuse thereby creating jobs, enhancing the tax base for the City of Monroe and improving the quality of life and, in part, for port operations and improvements. The goals of the director of economic development include working to retain businesses already in the City and to recruit new businesses by facilitating their interface with state and local government in the regulatory arena and in obtaining economic incentives based on new investment and job creation. Every local community in Michigan and in the mid-west competes intensely for new jobs and investment dollars. As an advocate of business, the economic development director will help improve the City's competitiveness in retaining and recruiting businesses, jobs, and investment.

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Financial Highlights (Concluded)

In June of 2005 the Port acquired the vacant building at 14 East First Street in the City of Monroe. Representatives from the City, Port, the library advisory committee, and other interested citizens are meeting to consider the financial and physical feasibility of remodeling the building for library purposes. If determined that using the building for library purposes is not feasible, the building will be made available for other public or private uses.

In June of 2006 the Port assumed ownership of approximately 35 acres of land located at the intersection of East Elm Avenue and North Dixie Highway. The Battle of the River Raisin occurred on this site in 1813 and many American soldiers were taken prisoner or killed during the battle. The land north of Elm was donated by Homrich, Inc. and the land between Elm and the River Raisin was donated by the Monroe County Historical Society. The Port accepted ownership with the understanding that the property would be held for a historical park and the purpose of preservation and historical interpretation of the events surrounding this important battle of the War of 1812. Through a grant and loan from the State of Michigan and a loan from the Downriver Community Conference through the Revolving Loan Fund program of the US EPA, the structures of the former paper mill have been demolished and the site is being backfilled, graded and seeded to specifications. The work is expected to be completed by late fall of 2008. See Note 3 for a discussion of how the Port is reporting the donations and subsequent costs of remediation and demolition.

Overview of Financial Statements

This discussion and analysis is intended to provide a basis of understanding of the Port's basic financial statements. These statements present the following components: presentation of net assets; presentation of revenues, expenses, and cash flows; notes to financial statements; and supplemental information. While the financial statements show other non-operating revenues including property tax, the operations of the Port as a component unit of the City are accounted for as a single enterprise fund that accounts for the operations that are financed through user charges to the general public.

Statement of Net Assets. The statement of net assets presents information on all of the Port's assets and liabilities, with differences between the two reported as net assets. The capital assets of the Port are listed in the Statement of Net Assets. Over time, increases and decreases in the net assets reflect activities by the Port that may have positive or negative financial impact on the overall fiscal position of the Port.

Statements of Revenues, Expenses and Cash Flows. These statements present information about the Port's operating and non-operating revenues and expenses, a comparison of cash and cash equivalents between the beginning and the end of the fiscal year, and a reconciliation of operating income to net cash from operating activities.

Notes to the financial statements. The notes provide additional information for a full understanding of the data provided in the Port's financial statements.

Supplemental Information. The supplemental information in the Port's financial statements consists of the budgetary schedule, which compares actual amounts with the original and amended budgets as approved by the Port and the City.

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Condensed Statement of Net Assets. Below you will find the financial statements presented in a condensed format. The details along with certain reconciliations are presented in the financial statements that follow Management's Discussion and Analysis.

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets	\$ 488,291	\$486,162
Restricted cash - held in trust	20,610	20,392
Property and Equipment	4,737,612	4,826,280
Total assets	<u>\$5,246,513</u>	<u>\$5,332,834</u>
Liabilities:		
Current liabilities	\$ 559,912	\$508,880
Contract payable	165,062	165,062
Due to City of Monroe (Extension of Utilities)	20,000	40,000
Environmental	300,000	300,000
Total liabilities	<u>\$1,044,974</u>	<u>\$1,013,942</u>
Net assets:		
Invested in capital assets - net of related debt	\$4,532,550	\$4,599,648
Restricted - environmental trust	20,610	20,392
Unrestricted	(351,621)	(301,148)
Total net assets	<u>\$4,201,539</u>	<u>\$4,318,892</u>

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets and Cash and Cash Equivalents

	2008	2007
Operating revenues	\$ 134,171	\$176,403
Non-operating revenues	405,859	413,755
Contribution from the City (MDEQ Grant-Battlefield)	-	988,023
Total revenues	<u>540,030</u>	<u>1,578,181</u>
Operating expenses	652,241	551,073
Non-operating expenses	5,142	4,883
Total expenses	<u>657,383</u>	<u>555,956</u>
Change in net assets (revenues less expenses)	<u>\$ (117,353)</u>	<u>\$1,022,225</u>
Total net assets, beginning of year	\$ 4,318,892	\$3,296,667
Increase (Decrease) in net assets	(117,353)	1,022,225
Total net assets, end of year	<u>\$ 4,201,539</u>	<u>\$4,318,892</u>
Cash in	\$539,567	\$510,621
Cash out	<u>(555,764)</u>	<u>(642,567)</u>
Net Increase (Decrease) in cash and cash equivalents	<u>(\$16,197)</u>	<u>(\$131,946)</u>
Cash and cash equivalents, beginning of year	\$ 56,254	\$188,200
Net Increase (Decrease) in cash and cash equivalents	(16,197)	(131,946)
Cash and cash equivalents, end of year	<u>\$ 40,057</u>	<u>\$56,254</u>

Financial Analysis

The decrease in the Port's cash and cash equivalents was \$16,197 during fiscal year 2008 which was less than the prior year's decrease of \$131,946. For fiscal years 2007 and 2008 the property tax millage was reduced from what it had been in fiscal 2006.

The capital assets, net of depreciation and related debt, decreased by \$68,668 because the Port's current year depreciation was greater than the acquisitions and debt reductions.

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Financial Analysis (Continued)

Comparisons – 2007 and 2008: There were also the following income and expense items that were notable fluctuations between fiscal 2007 and fiscal 2008:

Operating Revenues decreased \$42,232.

Land rental: Decrease of \$33,558 because in fiscal 2007 the Port recognized revenue all in one year from a multi-year lease that was intended to be recognized over multiple years due to the changed terms of the lease.

Operating Expenses increased \$101,168.

Salaries: Decrease of \$35,483 related to the change in status of the director of economic development from a full time employee in December 2006 to a part-time independent contractor/consultant.

Promotion: Decrease of \$25,023 because the costs of \$71,459 related to economic development services provided by a part-time consultant for the city and port were set forth in a new line item for fiscal 2008 named "Economic Development." The change from full time employee to a part-time consultant resulted in a reduction of more than \$35,000 annually.

Consulting engineers: Increase of \$60,507 caused in part by: 1) the need to prepare court exhibits and expert testimony for the Port's litigation in bankruptcy proceedings with Sturgis Iron & Metal discussed above; 2) engineering and management tasks associated with the demolition, remediation, and restoration of the battlefield site not covered by other funding sources; 3) right-of-way analysis and related assistance to special legal counsel and preliminary design of rail service to the Port's lands east of I-75 for current tenants and two prospective developers; 4) analysis of access and preparation of easements related to the pending sale of the Schonsheck building; and 5) update of the Port's wetlands assessment with MDEQ and the Corps of Engineers.

Legal: Increase of \$69,196 caused primarily by the Port's litigation in bankruptcy proceedings with Sturgis Iron & Metal discussed above and by the Port's efforts working with special legal counsel to provide rail access to its current and future tenants from both Canadian National and Norfolk & Southern Railroads.

Auditing and accounting: Increase of \$8,070 caused by the need to prepare court exhibits and expert testimony by a qualified financial consultant for the Port's litigation in bankruptcy proceedings with Sturgis Iron & Metal discussed above.

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Financial Analysis (Concluded)

The Port has successfully concluded its participation in the bankruptcy proceedings with Sturgis Iron & Metal. During the bankruptcy proceedings, Steel Dynamics, Inc. (SDI) purchased the assets and certain executory contracts of Sturgis related to the Port and others. As a part of those proceedings, SDI has delivered to the Port an irrevocable letter of credit in the amount of \$1,004,400 as security for the construction of rail to the Port's riverfront dock, based upon estimates prepared by the Port's engineer. Representatives of the Port and SDI have been working together to construct the rail and resume operations at the Monroe location.

Budgetary Highlights

The Port budget is set out in the supplemental information comparing the initial and amended budgets and the actual amounts spent in the various categories. Some of the larger differences of actual compared to budget are as follows:

Land rental revenue: The Port received \$9,000 more in land rentals than budgeted due to unanticipated short term land leases for staging areas by certain contractors.

Repairs and maintenance: Over budget by \$11,383 due to unexpected repairs to the Port's vehicle and to the Port's building and grounds.

Legal: Over budget by \$71,600 primarily because of the unexpected need for special legal counsel to represent the Port in the bankruptcy proceedings discussed above, most of which occurred during the last two months of fiscal 2008 and not invoiced until July and August of 2008; and legal analysis by other special legal counsel related to rail service discussed above.

Auditing and accounting: Over by \$5,350 because of the Port's litigation in bankruptcy proceedings with Sturgis Iron & Metal discussed above.

**PORT OF MONROE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008**

Capital Asset and Debt Administration

	Beginning Balance	Additions	Deletions	Ending Balance
Total Nondepreciable Capital Assets	\$3,768,959	\$0	\$0	\$3,768,959
Total Depreciable Capital Assets	2,761,986	4,645	8,876	<u>2,757,755</u>
Total Capital Assets	<u>\$6,530,945</u>	<u>\$4,645</u>	<u>\$8,876</u>	<u>\$6,526,714</u>
Less Total Accumulated Depreciation	1,704,665	\$93,204	\$8,767	1,789,102
Total Capital Assets, Net	<u>\$4,826,280</u>			<u>\$4,737,612</u>

The Port has agreed to reimburse the City for cost of certain infrastructure improvements as a part of a state grant. The balance of \$40,000 as of June 30, 2008 will be paid in annual installments of \$20,000 until paid in full. See Note 11 to the financial statements for more detailed information.

Economic Factors

Over the past year the Port has experienced a continued interest in industrial and commercial development and intermodal transportation opportunities. Development projects are currently under consideration that would involve rail and lake shipping opportunities and construction or rehabilitation of manufacturing, multimodal and corporate facilities. However, the economy in Southeast Michigan is significantly depressed with several major closures and downsizing of existing operations having been announced over the past 24 months. Consistent with that reality, at the end of fiscal 2008 no new development projects were under construction at the Port. The representatives from the Port and the City have and will continue to intensify their efforts to retain existing employers and facilitate and provide authorized incentives to attract new employers and investors to the City including the Port.

Requests for Information

This financial report is designed to provide a general overview of the Port's finances for all those with an interest in this component unit of the City. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Monroe Port Commission, Attention: Chairman, 2929 E. Front Street, P.O. Box 585, Monroe, MI 48161.

BALANCE SHEET

June 30, 2008

Assets

Current Assets

Cash and cash equivalents	\$40,057
Accounts receivable	31,014
Property taxes receivable, less allowance of \$2,324	48,800
Due from Monroe County Historical Society	1,730
Due from City of Monroe - property taxes	352,398
Prepaid expenses	14,292

Total Current Assets	488,291
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Restricted Assets

Restricted cash - held in trust	20,610
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Capital Assets

Property and equipment - net	4,737,612
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Total Assets	<u>\$5,246,513</u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$117,797
Due to City of Monroe	20,000
Deposit	6,000
Other accrued expenses	151
Deferred income - property taxes	407,357
Deferred income - rent	8,607

Total Current Liabilities	559,912
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Long-Term Liabilities

Contract payable	165,062
Due to City of Monroe	20,000
Environmental	300,000

Total Long-term Liabilities	485,062
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Total Liabilities	<u>1,044,974</u>
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Net Assets

Invested in capital assets, net of related debt of \$205,062	4,532,550
Restricted - environmental trust	20,610
Unrestricted	(351,621)

Total Net Assets	4,201,539
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Total Liabilities and Net Assets	<u>\$5,246,513</u>
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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2008

	<u>Amount</u>	<u>Percentage of Operating Revenue</u>
Operating Revenues		
Building rental	\$43,200	32.2
Land rental	46,350	34.6
Wharfage and dockage	31,836	23.7
MCIDC - office rental	5,000	3.7
Administrative services	7,785	5.8
Total Operating Revenues	134,171	100.0
Operating Expenses		
Consulting engineers	97,786	72.9
Salaries	49,042	36.6
Environmental expense	7,750	5.8
Environmental travel and meetings	2,701	2.0
Repairs and maintenance	31,383	23.4
Economic development	71,459	53.3
Legal	176,600	131.6
Auditing and accounting	19,350	14.4
Utilities	10,034	7.5
Telephone	2,849	2.1
Office supplies and postage	3,957	2.9
Life and medical benefits	620	0.5
General insurance	28,861	21.5
Payroll tax	3,752	2.8
Office cleaning	3,512	2.6
Travel - general	5,419	4.0
Promotion	1,727	1.3
Dues and subscriptions	4,650	3.5
Deferred compensation plan	4,504	3.4
Miscellaneous expense	1,671	1.2
Commissioner fees	6,620	4.9
Advertising	537	0.4
MCIDC - marketing	5,000	3.7
Depreciation expense	93,204	69.5
Wastewater treatment	19,253	14.3
Total Operating Expenses	652,241	486.1
Operating Income (Loss)	(518,070)	(386.1)
Nonoperating Revenues (Expenses)		
Interest income	5,080	
Property tax - City of Monroe, net of allowance	400,779	
Interest expense	(5,034)	
Loss on disposal of asset	(108)	
Nonoperating Revenues	400,717	
Change in Net Assets	(117,353)	
Total Net Assets, Beginning of Year	4,318,892	
Total Net Assets, End of Year	\$4,201,539	

(See accompanying notes to financial statements)

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2008

Cash Flows From Operating Activities:

Cash received from customers and tenants	\$109,533
Cash payments to suppliers for goods and services	(450,263)
Cash payments to employees for services	<u>(49,042)</u>
Net Cash Provided By (Used For) Operating Activities	(389,772)

Cash Flows From Noncapital Financing Activities:

Cash received from property tax - City of Monroe	<u>399,961</u>
Net Cash Provided By (Used For) Financing Activities	399,961

Cash Flows From Capital and Related Financing Activities:

Purchase of capital assets	(6,214)
Interest paid on long-term debt	(5,034)
Principal payment on long-term debt	<u>(20,000)</u>
Net Cash Provided By (Used For) Financing Activities	(31,248)

Cash Flows From Investing Activities:

Interest received on investments	5,080
Assets paid from trust and escrow	<u>(218)</u>
Net Cash Provided By (Used In) Investing Activities	<u>4,862</u>

Net Increase (Decrease) in Cash and Cash Equivalents (16,197)

Cash and Cash Equivalents, Beginning of Year 56,254

Cash and Cash Equivalents, End of Year \$40,057

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES
For the Fiscal Year Ended June 30, 2008

Operating Income (Loss)	(\$518,070)
Adjustments to Reconcile Operating Income (Loss) from Operations to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	93,204
Change in Assets and Liabilities:	
Decrease (Increase) in accounts receivable	(25,704)
Decrease (Increase) in prepaid expenses	12,451
Increase (Decrease) in accounts payable	43,450
Increase (Decrease) in deposit	6,000
Increase (Decrease) in other accrued expenses	<u>(1,103)</u>
Total Adjustments	<u>128,298</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>(\$389,772)</u></u>

(See accompanying notes to financial statements.)

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 1 Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies of the Port of Monroe.

A. Financial Reporting Entity

The Port of Monroe is a separate legal entity and a component unit of the City of Monroe for financial reporting purposes.

The Port was created by public vote in 1932, under the Michigan Port Districts Act 234 of 1925, as amended. It is administered by the Monroe Port Commission, consisting of five commissioners appointed to three year terms by the Monroe City Council.

B. Basis of Presentation

The operations of the Port are accounted for in a single enterprise type fund as outlined in Governmental Accounting Standards Board (GASB) No. 34. The fund is used to account for operations that are financed through user charges to the general public.

C. Basis of Accounting

The Port of Monroe uses the accrual basis method of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. Depreciation expense is recorded for the period.

The Port distinguishes operating revenue and expense from non-operating items. The principal operating revenues are rent, wharfage, dockage and administrative support. Non-operating revenue includes property taxes and contributions, appropriated by the City of Monroe, grants and interest. The Port applies only those applicable FASB pronouncements issued prior to November 30, 1989.

D. Budget Information

Prior to the beginning of the fiscal year a budget is approved by the Port Commission subject to the approval of the Monroe City Council. Budget amounts are as originally adopted, or as amended if applicable. Unexpended appropriations lapse at year end.

E. Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, certificates of deposit and investment pools with original maturities of less than three months. Currently the Port only has cash in checking and money market investment pool accounts which it considers to be cash and cash equivalents.

F. Capital Assets

Items capitalized are valued at cost. The depreciable capital assets are depreciated using the straight-line method over the estimated useful lives of the assets.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 1 Summary of Significant Accounting Policies (Concluded)

F. Capital Assets (Concluded)

The major portion of these assets are rented to others on operating leases

<u>Depreciation Categories</u>	<u>Life in Years</u>
Land & earthen dike	0
Road and site improvements	0-25
Railroad siding	10-50
Wharf	7-50
Dredging	20
Leachate collection system	7-20
Rental building	10-33
Office building	3-39
Furniture and equipment	5-10

G. Property Taxes

Property taxes are assessed and appropriated by the City of Monroe as of December 31. These taxes are billed and become an enforceable lien on the first Tuesday in May of the following year. These taxes are due on June 30 with the final collection date of September 15 before they are added to the county tax rolls.

Property taxes billed each May will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue at June 30.

H. Grants

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Note 2 Deposits and Investments

The Port Commission adopted an investment policy to invest its funds in a manner which will provide the highest in investment return with the maximum security while meeting the daily cash flow needs of the Port and comply with all state statutes governing the investment of public funds. The primary objectives in priority order of the investment activities are safety of principal, diversification, liquidity, and return on investment. The policy lists the types of investments that are authorized so long as they comply with the applicable state statutes.

The Port's deposits and investments were reported in the balance sheet under the following categories:

Cash and cash equivalents	\$40,057
Restricted cash - held in trust	<u>20,610</u>
Total	<u>\$60,667</u>

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 2Deposits and Investments (Continued)

The breakdown between deposits and investments for the Port are as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$33,332
Petty cash	100
Public short-term pooled investment funds held by a bank depository	<u>27,235</u>
	<u>\$60,667</u>

Deposits

The above bank deposits reflected accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$33,572. It is that amount that was covered by federal depository insurance and the remaining deposits were uninsured and uncollateralized.

Investments

The Port's investments are categorized below to give an indication of the level of risk assumed by the Port at the year end. Risk Category 1 in the amount of \$33,332 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Port or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterpart's trust department (or agency) in the Port's name. Category 3 includes investments held by:

- a. The counterpart or
- b. The counterpart's trust department (or agent) but not in the Port's name

The Port's investment balance as of June 30, 2008 was not subject to categorization as follows:

Bank investment pools:	
Short-term mutuals	<u>\$27,235</u>

The investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is \$1.00 per share and is the same as the reported value of the pool shares. The shares are accessible on demand and act as a sweep account to checking.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 2 Depcsits and Investments (Concluded)**Interest Rate Risks**

The Port's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Port manages its exposure to interest rate risk by generally limiting investment maturities to less than one year.

Credit Risk

The Port's credit risk is limited by the state statutes governing the investment of public funds and by the Port Commission investment policy which limits the types of investments. The Port has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Port investment policy refers to diversification by institution as a method to improve security of principal. The Port places no limit on the amount the Port may deposit or invest in any one issuer. As of June 30, 2008, 100% of the deposits and bank held public short-term pooled investment funds were with Monroe Bank & Trust.

Custodial Credit Risk

All of the bank pooled investment accounts and bank deposit accounts, except for the cash held in trust of \$20,610, are in the name of the Port.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 3 Property and Equipment

The following table presents the changes in the various fixed asset class categories for the year ended June 30, 2008 as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets:				
Land	\$1,665,709	\$ -	\$ -	\$2,848,462
Site improvements	363,697	-	-	363,697
Earthen dikes	321,061	-	-	321,061
Rental buildings	235,739	-	-	235,739
Construction in process	<u>1,182,753</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Nondepreciable	3,768,959	-	-	3,768,959
Depreciable Capital Assets:				
Road & site improvement	877,916	-	-	877,916
Railroad siding	268,785	-	-	268,785
Wharf	248,821	-	-	248,821
Dredging	374,445	-	-	374,445
Leachate collection system	36,056	-	-	36,056
Rental buildings	291,580	-	-	291,580
Office building	572,043	-	-	572,043
Furniture and equipment	<u>92,340</u>	<u>4,645</u>	<u>8,876</u>	<u>88,109</u>
Total Depreciable				
Capital Assets	<u>2,761,986</u>	<u>4,645</u>	<u>8,876</u>	<u>2,757,755</u>
Total Capital Assets	6,530,945	4,645	8,876	6,526,714
Less Accumulated Depreciation:				
Road and site improvement	343,210	34,323	-	377,533
Railroad siding	148,863	5,706	-	154,569
Wharf	210,593	2,335	-	212,928
Dredging	338,573	18,723	-	357,296
Leachate collection system	20,755	1,762	-	22,517
Rental buildings	266,344	8,933	-	275,277
Office building	300,147	16,998	-	317,145
Furniture and equipment	<u>76,180</u>	<u>4,424</u>	<u>8,767</u>	<u>71,837</u>
Total Accumulated	<u>1,704,665</u>	<u>\$93,204</u>	<u>\$8,767</u>	<u>1,789,102</u>
Total Capital Assets, Net	<u>\$4,826,280</u>			<u>\$4,737,612</u>

The nondepreciable rental building is the First Street building, adjacent to the library, which will start being depreciated when it is placed in use.

In June of 2006 the Port assumed ownership of approximately 35 acres of land that is a part of the former River Raisin Paper Company properties located at the intersection of East Elm Avenue and North Dixie Highway in Monroe, Michigan. The Battle of the River Raisin occurred on this site in 1813 and many American soldiers were taken prisoner or killed during the battle. The land north of Elm was donated by Homrich, Inc. and the land between Elm and the River Raisin was donated by the Monroe County Historical Society.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 3 Property and Equipment (Concluded)

The Port accepted ownership of the land with the understanding that the property would be held for historical purposes only, eventually to be developed into a public park dedicated to the preservation and historical interpretation of the events surrounding this historical battle of the War of 1812. Through a grant and loan from the State of Michigan and a loan from the Downriver Community Conference through the Revolving Loan Fund program of the US EPA, the structures of the former paper mill have been demolished and the site is being graded to specifications. The work is expected to be completed by late fall of 2008.

The Monroe County Historical Society provided an environmental insurance policy which insures the Port against certain environmental claims with limits up to \$1 million for the next 5 years. Congress has passed and the President has signed the River Raisin National Battlefield Study Act. This act directs the Secretary of the Interior to conduct a special resource study of this and other sites in Monroe County relating to the Battles of the River Raisin on January 18 and 22, 1813 to determine the national significance of the sites and the suitability and feasibility of including the sites in the National Park System. The process should be completed during 2009. Because the Port has agreed to hold this property for the exclusive purpose of historical preservation and interpretation, or to transfer the property to a non-profit or governmental organization such as the National Park Service without consideration, and because the property would require extensive demolition and remediation activity, no value was capitalized by the Port as a result of the donation. Costs to demolish the structures and remediate the site in the amount of \$1,182,753 were capitalized as construction in process. That amount approximates the estimated fair value of the land upon completion of demolition and remediation. Therefore, additional costs for demolition and remediation will be expensed and not capitalized. Funds from other sources such as grants to the City to be used to improve the land will not be reflected in the Port's financial reports. The City expensed \$1,006,206 in fiscal June 30, 2008.

Note 4 Assets Held in Trust

As discussed in more detail in Note 9, the Port is taking part in a work plan to resolve the environmental contamination at the Port of Monroe. The Port of Monroe and Harsco Corporation have each advanced funds to a trust to fund a work plan for remedial investigation and feasibility study. The Port's share of the trust fund balance at June 30, 2008 was \$20,610.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 5 Rental Income

The terms of the rental agreements are varied, and are changed from time to time when they are renewed. Several of the agreements can be terminated by written notification in advance by either party while for others the termination clause is conditional. All leases are accounted for as operating leases.

The following is a schedule by years of minimum future rental income on noncancellable operating leases with terms of one year or longer as of June 30, 2008:

2009	\$ 36,791
2010	37,535
2011	37,535
2012	28,768
2013	20,000
2014 and thereafter	<u>316,154</u>
Total	<u>\$476,783</u>

A tenant of the Port has a contract obligation to construct a railroad valued at more than one million dollars on Port property. The Port of Monroe, as lessor, has entered into lease agreements which include contingent lease payments. The contingent portion of lease income was \$7,134 for wharfage and \$-0- for land in fiscal 2008.

Note 6 Retirement Plan

The Port offers its employee a deferred compensation plan with the Equitable Life Assurance Society, which holds the funds as agent. The plan, available to all Port employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to its employee until termination, retirement, death, or unforeseeable emergency. The Port contributed 5% of compensation plus a match of employee deferred amounts up to a maximum of 5%. The employees deferred \$12,600 of their compensation in 2008. The Port contributed \$4,504 in fiscal 2008, which was 9.18% of total compensation.

Note 7 Michigan Unemployment

The Port of Monroe has elected the reimbursement method of paying for Michigan unemployment benefits claimed by an eligible Port employee; and therefore, has a contingent liability. Since there is only one employee this unrecorded liability would be relatively small.

Note 8 Monroe County Industrial Development Corporation

The Monroe County Industrial Development Corporation (MCIDC) is a non-profit corporation whose purpose is to promote the development of industry in the area. The Port of Monroe and the MCIDC share similar goals and the MCIDC is providing marketing services to prospective clients interested in locating in the Port area.

MCIDC occupied office space at the Port office building in exchange for marketing services. The rental value and services were valued at \$5,000 for fiscal June 30, 2008. MCIDC reimbursed the Port for postage and incidental items. This agreement was terminated as of December 31, 2007.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 9 Port Property Under Environmental Remediation

The Port of Monroe owns approximately 317 acres of a 480 acre track of land that has been identified as a site of environmental contamination by the Michigan Department of Environmental Quality (MDEQ). The MDEQ has notified the Port Commission and more than seventy (70) other individual and corporate entities that they have been identified as potentially responsible parties. The remedial investigation of the land has been substantially completed. The data collected has demonstrated that there is no serious risk to human health or to the environment. The land is available for industrial development except for relatively small portions needed to construct and maintain shore protection, intermodal transportation easements, and utility corridors. By submitting a baseline environmental assessment (BEA) under Michigan's Natural Resources and Environmental Protection Act (NREPA) to the MDEQ, prospective developers have liability protection from existing environmental contamination. Remedial action will probably consist of limited monitoring and shore protection in selected areas. The Port Commission and Harsco Corporation continue to work cooperatively with MDEQ toward a final remedial action plan (RAP) for all of the land that will bring closure to the site. An interim remedial action plan (IRAP) for the land east of Interstate 75 has been reviewed by MDEQ. The Port representatives have met with MDEQ to discuss various options which are currently under consideration. The Port Commission has established the sum of \$300,000 on its balance sheet under liabilities to represent an estimate of its share of the remedial action costs based upon present information.

Note 10 Risk Management

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port participates in the Michigan Municipal League Liability and Property Pool (MMLLPP), a public entity risk pool operating a common risk management and insurance program. The Port pays an annual premium to MMLLPP for its general insurance coverage. MMLLPP is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. The Port carries workers' compensation insurance with the Michigan Municipal League.

Settled claims resulting from the various risks described above have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 Due to City of Monroe

The City of Monroe is obligated to repay the Michigan Economic Development Corporation \$400,000. A grant was obtained by the City of Monroe for Port improvements intended to encourage development and create jobs. Since the conditions of the grant were not met by the deadline, the City is required to repay the grant over ten years with possible reductions of \$20,000 per job created during the repayment period. The Port has agreed to participate in the repayment on an annual basis.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

Note 11 Due to City of Monroe (Concluded)

The maximum amount is recorded "Due to the City of Monroe," totaling \$40,000 as of June 30, 2008.

Balance - July 1, 2007	\$ 60,000
Principal paid	(20,000)
Balance - June 30, 2008	<u>\$ 40,000</u>

The annual requirements to service the debt outstanding as of June 30, 2008 are as follows:

<u>Fiscal June 30</u>	
2009	\$20,000
2010	20,000
2011 and thereafter	—
Total	<u>\$40,000</u>

Note 12 Land Contract Liability

On June 20, 2005 the Port of Monroe purchased a building next to the Dorsch Memorial Library on a land contract for \$260,000. The remaining payments will be interest only at 3%, due on June 20 of each year until the balloon payment of principal on June 20, 2010. The contract may be paid off early without penalty.

Balance - July 1, 2007	\$165,062
Principal Paid	—
Balance - June 30, 2008	<u>\$165,062</u>

The annual requirements to service the debt outstanding as of June 30, 2008 are as follows:

<u>Fiscal June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 4,952	\$ -	\$4,952
2010	<u>169,876</u>	<u>165,062</u>	<u>4,814</u>
Total	<u>\$174,828</u>	<u>\$165,062</u>	<u>\$9,766</u>

Note 13 Contingencies

In the normal course of its activities, the Port may be a party to certain legal actions. The Port and its legal counsel are of the opinion that there are no legal actions which will have a material effect on the financial statements.

BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended June 30, 2008
(See Accompanying Independent Auditors' Report)

	Budgeted Amounts		Actual	Variance From
	Original	Final	Amounts	Amended Positive (Negative)
Operating Revenues				
Building rental	\$43,200	\$43,200	\$43,200	\$0
Land rental	37,350	37,350	46,350	9,000
Wharfage and dockage	36,000	36,000	31,836	(4,164)
MCIDC - office rental	10,000	5,000	5,000	0
Administrative services	5,190	5,190	7,785	2,595
Total Operating Revenues	<u>131,740</u>	<u>126,740</u>	<u>134,171</u>	<u>7,431</u>
Operating Expenses				
Consulting engineers	100,000	105,000	97,786	7,214
Salaries	50,000	50,000	49,042	958
Environmental expense	12,000	12,000	7,750	4,250
Environmental travel and meetings	4,000	4,000	2,701	1,299
Repairs and maintenance	100,000	20,000	31,383	(11,383)
Economic development	0	72,000	71,459	541
Legal	95,000	105,000	176,600	(71,600)
Auditing and accounting	14,000	14,000	19,350	(5,350)
Utilities	8,000	8,000	10,034	(2,034)
Telephone	2,500	2,500	2,849	(349)
Office supplies and postage	2,500	2,500	3,957	(1,457)
Life and medical benefits	2,000	1,000	620	380
General insurance	35,000	35,000	28,861	6,139
Payroll tax	3,825	3,825	3,752	73
Office cleaning	4,000	3,500	3,512	(12)
Travel - general	5,000	5,000	5,419	(419)
Promotion	3,000	1,500	1,727	(227)
Dues and subscriptions	3,000	4,500	4,650	(150)
Deferred compensation plan	6,800	6,800	4,504	2,296
Miscellaneous expense	1,000	1,000	1,671	(671)
Commissioner fees	6,500	6,500	6,620	(120)
Contingency expense	1,000	1,000	0	1,000
Security	1,000	1,500	0	1,500
Advertising	2,000	2,000	537	1,463
MCIDC - marketing	10,000	5,000	5,000	0
Depreciation expense	94,000	93,000	93,204	(204)
Wastewater treatment	25,000	20,000	19,253	747
Total Operating Expenses	<u>591,125</u>	<u>586,125</u>	<u>652,241</u>	<u>(66,116)</u>
Operating Income (Loss)	<u>(459,385)</u>	<u>(459,385)</u>	<u>(518,070)</u>	<u>(58,685)</u>
Nonoperating Revenues (Expenses)				
Interest income	10,000	10,000	5,080	(4,920)
Property tax - City of Monroe, net of allowance	403,600	403,600	400,779	(2,821)
Interest expense	(4,955)	(4,955)	(5,034)	(79)
Loss on disposal of asset	0	0	(108)	(108)
Net Nonoperating Revenues	<u>408,645</u>	<u>408,645</u>	<u>400,717</u>	<u>(7,928)</u>
Change in Net Assets	<u>(\$50,740)</u>	<u>(\$50,740)</u>	<u>(\$117,353)</u>	<u>(\$66,613)</u>

(See accompanying notes to financial statements)



COOLEY HEHL
WOHLGAMUTH & CARLTON
P. L. L. C. Certified Public Accountants

James R. Cooley, CPA
David K. Hehl, CPA
Robert W. Wohlgamuth, CPA
Peter H. Carlton, CPA
Matthew D. Hehl, CPA
Deborah A. Sabo, CPA
Nicklaus W. Calkins, CPA

One South Monroe Street • Monroe, Michigan 48161-2230
Telephone: (734) 241-7200 • Fax: (734) 241-2637
www.chwccpa.com

Members:
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants
Division for CPA Firms American Institute of
Certified Public Accountants

Monroe Port Commission
Port of Monroe
2929 East Front Street
Monroe, MI 48161

In planning and performing our audit engagement of the financial statements of the Port of Monroe as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Port's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port of Monroe's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Monroe's internal control.

A new auditing standard, SAS No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" is effective for audits after December 15, 2006. Auditors are now required to communicate in writing with clients about significant deficiencies and material weaknesses that come to their attention.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement, of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the following deficiency in internal control that we consider to be a material weakness:

Financial Statements – Environmental Remediation

As discussed in Note 9 to the financial statements, the Port of Monroe owns property which is undergoing environmental remediation. The Port of Monroe is one of several potentially responsible parties for these costs, the total amount of which has not been determined. As of June 30, 2008 a provision was made for the minimum amount of the range of estimated liability.

An extensive environmental analysis would be needed to estimate and document a liability amount that would satisfy the accounting requirements under generally accepted accounting principles.

Financial Statements – Environmental Remediation (Concluded)

In response to the identification of this material weakness, the Port of Monroe has directed its attorney in consultation with its engineer and environmental consultant to review all relevant governmental accounting standards for the United States, including but not limited to GASBS 49, regarding the accounting and financial reporting of pollution remediation obligations that the Port may have and make recommendations to the Port as to the applicability and feasibility of incorporating such standards into its accounting practices for the 2009 fiscal year.

Resolution of Prior Year Weakness

The deficiency in internal control that we consider to be a material weakness in the prior year was resolved in the current fiscal year. The prior comment concerning financial statements was as follows:

“As is common with smaller entities, the Port has relied on independent auditors to assist in the preparation of the financial statements, related notes and assistance with year end adjustments. The result is that the Port does not have controls in place to prepare the financial statements and notes in accordance with generally accepted accounting principles. The Port of Monroe does carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.”

The controls over the preparation of the financial statements and notes were strengthened for the fiscal year ended June 30, 2008 by the involvement of the City of Monroe Finance Director.

The internal control system of the Port of Monroe is comprised of one clerical person, along with the involvement of the Port Commission, the City Clerk-Treasurer, and the City Finance Director. We want to stress the importance of the Port Commission and the city official's continued participation in the system.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all officers and employees of the Port. We would be pleased to discuss any of these comments with you, and to provide any assistance that you may require in their implementation.

This communication is intended solely for the information and use of the Monroe Port Commission, City of Monroe, management, and others within the Port of Monroe and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Cooley Nehl Wohlgenuth & Carlton, PLLC". The signature is written in a cursive, flowing style.

October 16, 2008